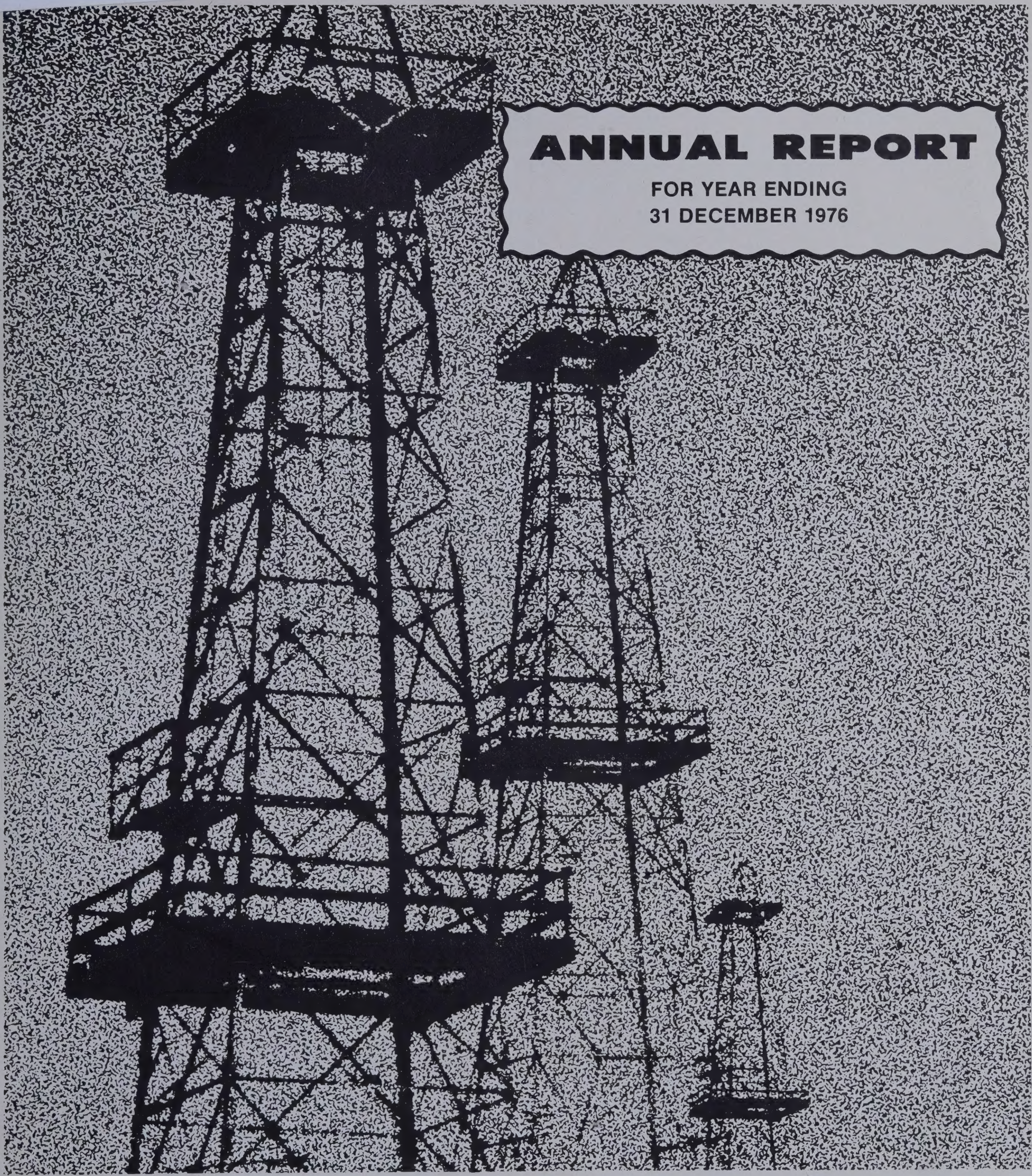

ANNUAL REPORT

FOR YEAR ENDING
31 DECEMBER 1976

File

PHOENIX CANADA OIL COMPANY

LIMITED

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada, 25 November 1944

Directors	S. DONALD MOORE JASON GOULD JOHN A. MURPHY	Toronto, Canada Irvington-on-Hudson, New York Scarborough, Canada
Officers	S. DONALD MOORE JOHN A. MURPHY	President Secretary-Treasurer
Operating Offices	EXECUTIVE OFFICES	700 — 15 Toronto Street Toronto, Canada M5C 2E3
	WESTERN CANADA	502 — 630 - 8th Avenue, S.W. Calgary, Canada T2P 1G6
	UNITED STATES (DIRECTOR REPRESENTATIVE)	285 Madison Avenue — 17th Floor New York, New York 10017
Banking	THE ROYAL BANK OF CANADA MAIN BRANCH	Toronto, Canada
	THE BANK OF NOVA SCOTIA NEW YORK AGENCY	New York, New York
	BANK OF AMERICA SUCURSAL QUITO	Quito, Ecuador
Stock Exchange Listing	MONTREAL STOCK EXCHANGE	
Transfer Agents	GUARANTY TRUST COMPANY OF CANADA	88 University Avenue Toronto, Canada
Auditor	HARBINSON, GLOVER & CO.	Toronto, Canada
Capitalization	AUTHORIZED	5,000,000 Shares ($1.00 par value)
	ISSUED	2,021,856 Shares

The contents of this Report is intended to inform present Shareholders about the Company and its operation. It is not an offer of sale or a solicitation of an offer to buy securities unless preceded or accompanied by a current Prospectus which contains information concerning the Company and on any current public offering of its securities.

phoenix canada oil company limited

STATEMENT OF OIL PRODUCTION INCOME AND CHANGES IN FINANCIAL POSITION

For the Six Months Ended 30 June 1976

(With comparative figures for the period 30 June 1975)

(Prepared from Company Records without Audit)

OIL PRODUCTION INCOME

	30 June 1976	30 June 1975
Foreign (Ecuador) gross operating revenue from oil production	$ 2,332,392	$ 2,226,045
Less: Direct operating expenses; — Pipeline tariffs	40,196	40,845
	2,292,196	2,185,200
Less: Foreign (Ecuador) taxation, including income and export taxes, port and pipeline taxes; and foreign exchange charges	2,024,390	1,985,530
	267,806	199,670
Less:		
Administration and general expenses	47,702	30,330
Depreciation	110	156
Deferred Ecuador expenses written off and amortization of administration expenses	9,447	10,377
	57,259	40,863
Net operating income	210,547	158,807
Net investment income	11,254	2,661
Net income for the period	$ 221,801	$ 161,468
Earnings per share	10.97 cents	7.98 cents

CHANGES IN FINANCIAL POSITION

	30 June 1976	30 June 1975
Working capital derived from:		
Net income for the period	$ 221,801	$ 161,468
Non-cash items	9,557	10,533
	231,358	172,001
Working capital applied to:		
Exploration and development expenses	2,192	3,800
Advances to associated companies (NOTE 1)	32,754	345
	34,946	4,145
Increase in working capital	196,412	167,856
Working capital beginning of period	467,723	328,174
Working capital at end of period (NOTE 1)	$ 664,135	$ 496,030

NOTE 1 — From June 1974, the Company was required to invest 50% of net Ecuador income in approved national development projects. Investments and advances to a major hotel development in Quito were approved in October 1975 and are being made out of these Ecuador funds.

NOTE 2 — Excess foreign business income tax credits, applicable on future Ecuador net income under Canada Income Tax law, aggregated $3,225,843 at 31 December 1976 (1973 — $622,472; 1974 — $1,155,453; 1975 — $1,447,918).

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interim shareholder report

for the six months ended 30 June 1976

phoenix canada oil company limited

suite 700 • 15 toronto street • toronto • canada • M5C 2E3

to PHOENIX shareholders:

During the period under review, net Ecuador royalty oil production totalled 167,482 bbls — 920 bbls/day — at a $13.925 average reference price. A landslide mishap reduced pipeline throughput in June. Net earnings increased 37% over 1975; working capital increased 34% after sizeable local investment provisions. Mortgage financing negotiations for our initial project, a much needed 300-350 room, $15,000,000 hotel in Quito, are proceeding very satisfactorily. With 7 acres dedicated to the hotel complex, development of the remainder of the prime 25-acre site indicates interesting capital gains potential.

Current Texaco-Gulf problems with Ecuador and the State oil company, CEPE, are receiving publicity. Gulf is reported as threatening withdrawal. The root problem appears to be the lack of new exploration by Texaco-Gulf, who claim inadequate returns on capital investment under current tax policies. Ambitious Ecuador infrastructure development plans require large, secure and expanding foreign exchange earnings. It seems illogical that CEPE will be funded to either purchase Gulf's interest or to operate costly wildcat exploration for their own account. In fact, the current controversy may yet be the catalyst for a workable, economic service contract on the former Minas-Yasuni area.

It remains inappropriate to comment on our pending Texaco-Gulf litigation. Material developments can occur this month. We are advised that Norsul, our 50% partner in Ecuador, this week instituted legal proceedings against Texaco and Gulf in Florida.

In the Arctic Islands, Phoenix retains net profits and royalty interests in over 1,280,000 acres, largely on oil-prospective Northwest Bathurst, favourably influenced by the nearby Bent Horn activity (current driller tested 5,400 bbls/day from 4 zones within an indicated 1,300' oil column, from 9,034' to 10,020'). Bent Horn, and the nearby Key Point cased gasser, are both still testing.

In Nigeria, Marathon-Pan Ocean just started pipeline operations from 10 wells in the Ogharefe Field, near our 109,252-acre Gilli Gilli royalty (0.31325%) block. Gilli Gilli development remains delayed by uneconomic taxation policies, described as under review by the current Government.

Our AOSTRA funding proposals, covering proprietary nuclear stimulation techniques for in-situ heavy oil recovery in the Athabaska Tar Sands, remain in contention and pending, with their decision expected shortly. The stake is over 500-billion bbls of deep-seated heavy oil reserves in Alberta alone. For National Energy Board hearings, the Alberta Conservation Board recently projected that Alberta's conventional production will decline from 1,500,000 bbls/day to 350,000 bbls/day within 20 years, disastrous for Canada unless major tar sand developments start promptly.

The Company has just completed legal acquisition procedures covering a potentially major open pit coal mining prospect in Northwestern Canada comprising almost 400,000 acres. Potential reserve estimates, relying on independent, unpublished geological information, but subject to exploratory drilling confirmation, are in the multi-billion ton category. Production logistics will be difficult and costly. Commercial potential may only be realizable through liquifaction and gasification conversion processes. Pipeline access to markets is a reasonable prospect within the indicated time-frame for deposit development. A Press Release will be issued as soon as particulars can be disclosed.

Submitted on Behalf of the Board:
by: S. Donald Moore; President
14 September 1976

To The Shareholders:

We are pleased to report a substantial improvement in profitability and working capital during 1976. Despite a modest decline in Ecuador revenues, net income increased due to reduced expenses and higher investment income. The potential capital investment demands of several sizeable energy resource exploration programmes now underway makes it essential to maintain our strong financial capability. Prudent and prompt exploitation of continual investment opportunities in energy-related ventures currently available to us, offering profitable employment of our current income stream and impressive longer term speculative potential, is dictated by the political uncertainties inherant in our Ecuador royalty income position. Our first diversification effort, a modest West Virginia natural gas development project, was successful and production started in early 1977.

Energy authorities of every political persuasion come to the same conclusion in adding energy "numbers" — predictions of desperate shortages — possibly as soon as the early 1980's, but no later than the mid-1990's. Moreover, the expected world shortfall in conventional oil production by the year 2000, almost certainly 15-20 million bbls/day — equal to current U.S. consumption — is likely to occur even if coal production doubles and nuclear power multiplies 15 times and conservation measures cut historic consumption growth rates in half and the "real" price of oil and gas (incorporating inflation) rises 50%, to further reduce consumption. While gloomy predictions tended to proliferate during the recent record cold winter, the energy crisis is a fact of the contemporary human condition and will affect the quality of life for as distant a future as we dare to project.

Several of our established interests, along with recently acquired assets, offer interesting income and appreciation potential. New energy industry proposals are continually under evaluation. The interesting speculative potential for our Shareholders derives from our relatively small common share capitalization, unchanged the past year, and the absence of senior securities, funded debt or other financial commitments, including warrants, rights or options, that could dilute Shareholder equity.

Ecuador Assets and Operations

Royalty oil production declined slightly during 1976 due to reduced exports and isolated pipeline ruptures requiring temporary shutdowns. The official Ecuador Government Reference Price on which our royalty income is based remains at \$13.70/bbl (basis 28° gravity) — or about \$14.00/bbl for Ecuador's average 30.4°, high grade, low sulphur crude. Gross royalty oil production may decline further in 1977 following the purchase by the Ecuador state oil company (CEPE) of Gulf's Ecuador operations for \$82,128,000; a further \$35,372,000 payment to Gulf is subject to a current independent audit. Texaco and CEPE are studying an expansion of Oriente production from current levels under 200,000 bbls/day to at least 250,000 bbls/day by re-working many existing wells and by developing additional largely proven, but presently undrilled, reserves. This project was delayed awaiting resolution of the CEPE-Gulf purchase and sale transaction, completed a few days ago.

The Ministry of Natural Resources and Energy has long been studying the creation of service or production-sharing contracts

to replace existing concession-type arrangements. To do so, sensitive revisions to the 1971 Hydrocarbons Law and the drafting of an acceptable form of operating contract with foreign companies are required. Successive drafts of both the Hydrocarbons Law revisions and operating contract form have been discussed with industry, including our Management, for nearly 2 years. Final decrees establishing the new regime are now scheduled for late July. We are staying as close as possible to this development in our effort to secure an economic service-type contract covering certain lands within the former Minas-Yasuni Concession Contract area, explored by our World Ventures associates (Amerada Hess, Aminoil et al) from 1967 to 1973. The World Ventures associates completed over $20,000,000 of highly successful exploration and development work (perhaps $70,000,000 at current prices) on Minas-Yasuni lands. Out of 6 wildcat wells drilled, 4 were commercial oil discoveries (flowing 15° to 26° gravity oil at rates of from 200 to 1290 bbls/day); one well tested non-commercial shows and one was a dry hole.

It remains inadvisable to comment on the current status of our litigation with Texaco, Gulf and their Delaware subsidiaries operating (or formerly operating, in the case of Gulf) in Ecuador. The Phoenix lawsuit has been removed from New York to Delaware; a parallel Norsul action is being pursued in Florida. The very recent resolution of differences between Gulf and the Ecuador Government, as described above, could set constructive developments in motion.

In accordance with the 1974 Ecuador Government decree providing that 50% of our net Ecuador oil income be earmarked for investment in approved national development projects, Phoenix, associated with Norsul as to a 50% undivided interest, is actively proceeding with construction planning on the approved project — a critically-needed, 300-350 room, $15,000,000 international-class, luxury business-tourist hotel located on a large prime view location within Quito, the national capitol. The overall project comprises a total of 25 acres held by Phoenix-Norsul, of which about 7-8 acres are dedicated to the hotel complex. Infrastructure requirements, including water services and road system, involve considerable time and effort to secure numerous Federal, Provincial and Municipal approvals. Negotiations on the expansion of the Phoenix-Norsul hotel investment group to include financial, construction and hotel management expertise is concurrently underway; definitive agreements are possible soon. After our recovery of all costs and investments out of first project development proceeds, Phoenix will retain a 30% equity interest.

Canadian Arctic Islands Interests

On May 29th, Panarctic spudded the Sophie Point-Vanier Island wildcat — their most easterly current driller — due east of, and between, the Bent Horn oil play and Phoenix acreage on closely adjacent Northwest Bathurst Island. The Sophie Point location appears to be directly on the northeast-southwest geological strike of the largest Northwest Bathurst structure, the Stokes Range anticline, located on our acreage. Primary prospective horizons under the Sophie Point test, projected to 9,000-11,000 ft., include the Blue Fiord (the pay at Bent Horn) and Allen Bay carbonates and reef build-ups. Unofficial indica-

tions are that the next wildcat in the immediate area will be on the Stokes Range structure, possibly later this year or by early 1978, depending upon rig availability and seasonal logistics.

Phoenix interests, now maintained in good standing by Panarctic at no further cost to us, include carried net profits and gross overriding royalty interests in over 1,200,000 acres, including 830,837 acres on Northwest Bathurst Island (3.4% carried net profits interest in 704,273 acres and 1.625% gross royalty in 126,564 acres). Remaining holdings are smaller net profits interests held on Ellef Ringnes and Ellesmere Islands.

The Bent Horn-Cameron Island discovery, the first possibly commercial oil field in the Arctic Islands, is the locale of Panarctic's most concentrated and costly exploratory effort to date. A 36-day production test of the most recent success, Bent Horn A-02, resulted in total production of 127,000 bbls, with flow rates of up to 6,000 bbls/day on a restricted choke, and an average flow rate for the entire test of 3,500 bbls/day. Bent Horn produces a clean, high quality 43° gravity crude, with no water. Panarctic is aiming to prove Bent Horn economically viable at 50,000 bbls/day, employing year-round ice-breaker tanker transport from a southern Bathurst Island terminal to Eastern Canada markets.

Earlier photogeological studies, confirmed by a seismic survey over the largest structure, Stokes Range, have located numerous major anticlines on the Phoenix holdings, with a further suggestion that a geologically favourable "platform" environment underlies our acreage. After 15 years of expectation, we are nearing fruition, if there is to be any, from these efforts.

Northwest Territories Coal Prospect

Late last year Phoenix acquired coal exploration rights on 389,000 acres, located on the Scented Grass Hills peninsula of western Great Bear Lake, about 90 miles east of the Mackenzie River. Shallow seismic drilling during earlier oil exploration by others reportedly indicated the presence of at least 3 flat-lying coal seams, the largest apparently over 35 ft. thick. Limited sampling from outcrops several miles from our area of interest indicated coal with an ash content under 5%, volatiles of about 30% and dry ash-free calorific values averaging about 11,600 BTU/lb.

Production logistics are presently indicated as difficult and costly; however, essential water supplies are unlimited and environmental concerns are minimal in this remote, uninhabited region. We have completed a highly informative photogeological study for follow-up surface geological reconnaisance starting in early July. Shallow drilling is planned if field survey results are encouraging. A major European-financed energy company is presently considering several alternative joint venture proposals that they have requested Phoenix provide.

When possible coal reserves are considered adequate to support very large scale open pit mining operations, we will then proceed to definitive evaluations of several coal conversion processes to establish the commercial potential of gasification and liquefaction to produce synthetic pipeline-quality gas, liquid fuels, such as methanol, and petrochemical feedstocks. Additional commercial alternatives include slurry pipelining to utility or smelter markets and on-site electrical power generation delivered to consumers via long distance transmission lines.

If recent proposals for extended delays in Mackenzie Valley pipeline construction are implemented, energy marketing alternatives from this property may be reduced. We wish to record our position that we utterly fail to see why the presently hopeless, generally miserable and universally poverty-stricken "way of life" of the extremely few native peoples in this vast region should be "protected" and how their "life style" can be improved by delaying for many years a multi-billion dollar industrial development that will provide them with productive and meaningful long-term employment for a truly promising future.

Nigeria Royalty Interest

Marathon-Pan Ocean has commenced commercial production from at least 10 wells in the Ogharefe Field, on acreage adjoining our 109,252-acre Gilli Gilli royalty block (35.7999% of 1% of ⅞; or 0.31325% of gross production) operated by Phillips Petroleum as OML Lease 96. Our holdings contain two field discoveries — Gilli Gilli, which tested 2,400 bbls/day of high grade 50.4° gravity low sulphur light crude and gas at 6.85 MM cu. ft./day at 6,700 ft. (the confirmation well flowed 1,104 bbls/day of 49° and 552 bbls/day of 35.6° light oil) — and Gilli Gilli North, which tested 672 bbls/day of 49° light oil at 7,200 ft.

The capacity of the nearby Marathon pipeline is 50,000 bbls/day, likely adequate to receive some Gilli Gilli production. However, despite strong demand for Nigeria's sweet light oil, selling at substantial premiums over OPEC "marker" crude, development remains stalled by uneconomic taxation policies — which remain described as "under review" by the current Nigerian Government. We are confident that Gilli Gilli reserves will eventually be produced because of increasingly strong international markets for this desirable oil.

Other Interests

Phoenix holds an approximate 12.5% working interest participation in a successful 6-well gas development programme in Clay County, West Virginia. All wells were on stream as of June 15th, marketed to Equitable Gas of Pittsburgh. Both capital investment and net income are modest but at the current area gas price of about $1.56/MCF, payout should be timely and provide a useful long-term cash flow.

Phoenix successfully tendered at several Alberta Crown lease sales, acquiring 4 sections, 2,560 acres, at North Bindloss (Twp. 24-Rge. 2-W4) on a drilling play we developed. A further 4 sections were bid in at West Homeglen-Rimbey (Twp. 42-Rge. 2-W5) on an interesting subsurface feature we feel offers a viable wildcat prospect. At North Bindloss, we arranged a pooling agreement involving a 5,120-acre drilling block — 50% Phoenix, 25% Dome Petroleum and 25% Eagle Oil — preparatory to farmout negotiations. If farmout negotiations are successful, earning wells will be drilled on both blocks at no cost to Phoenix.

Following a lengthy geological evaluation of extensive published and unpublished data, Phoenix successfully completed formal application procedures covering approximately 4,150,000 acres, comprising largely close-in offshore blocks, within the Cape Vogel Basin of northeastern Papua New Guinea (published as Petroleum Prospecting License No. 6 in the National Gazette of 16 December 1976). This young nation, a Commonwealth Member, is

considered politically stable and financially sound, deriving its Parliamentary Government institutions from its 60-year affiliation with Australia. Many international majors and independents are currently engaged in Papua New Guinea oil exploration, with others certain to follow recent legislative enactment of interesting exploration and exploitation incentives and a reasonable tax structure. Part of our geological rationale involves the drawing of interesting parallels between the known Cape Vogel Basin stratigraphy and that of the Salawati Basin, at the western end of Indonesian New Guinea, a prolific new oil province.

Our application for Alberta Government funding, through AOSTRA, of a research and testing programme on our proprietary nuclear stimulation techniques for in-situ heavy oil recovery from the Athabaska Tar Sands has been denied at this time. We are studying alternative approaches to the financing of advanced research on this rational heavy oil recovery process. Priority must be given efforts to counter the understandably strong political and environmental opposition, based on fears we consider unfounded.

Following onerous changes in Manitoba mining policies and taxation under their NDP Government, including very sharp increases in annual maintenance costs, the Company decided to relinquish all Snow Lake Mining Leases, comprising the gold prospect held since the early 1940's. Accelerating capital and operating costs and burdensome Provincial resource taxation makes commercial development of practically any mining industry, outside of Federal Canada, uneconomic in the foreseeable future.

Submitted on Behalf of the Board;
by: S. DONALD MOORE, President.
15 June 1977

ASSETS

	1976	1975
Current:		
Cash and deposit receipts	$ 381,144	$ 276,913
Marketable securities, at cost (market value 1976 — $38,475; 1975 — $10,461)	29,104	8,253
Accounts and deposits receivable (Note 3)	478,985	189,829
	889,233	474,995
Shares and advances in other companies:		
Shares, at cost	1,000	1,000
Advances	14,137	1,335
	15,137	2,335
Fixed, at cost:		
Land for development — Ecuador (Note 3)	212,751	212,751
Interests in petroleum and natural gas permits and/or leases	105,958	100,288
Mining properties	115,101	115,001
Furniture and fixtures, less accumulated depreciation	882	1,102
	434,692	429,082
Deferred:		
Organization expenses	3,770	3,770
Exploration, development and administration expenses	328,300	295,951
	332,070	299,721
	$1,671,132	$1,206,133

LIABILITIES

	1976	1975
Current:		
Accounts payable and accrued liabilities	$ 38,870	$ 7,272

SHAREHOLDERS' EQUITY

	1976	1975
Capital stock:		
Authorized:		
$5,000,000 divided into 5,000,000 shares of $1 each		
Issued and fully paid:		
2,021,856 shares	2,021,856	2,021,856
Less: Discount thereon	1,696,096	1,696,096
	325,760	325,760
Surplus	1,306,502	873,101
	$1,671,132	$1,206,133

Approved on behalf of the Board:

S. DONALD MOORE, Director.
JOHN A. MURPHY, Director.

AUDITORS' REPORT

To the Shareholders of
Phoenix Canada Oil Company Limited.

We have examined the balance sheet of Phoenix Canada Oil Company Limited as at December 31, 1976 and the statements of earnings, retained earnings, exploration, development and administration expenses and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We have been unable to directly confirm precise information from the Central Bank of Ecuador or from Texaco-Gulf concerning funds on deposit or amounts receivable from these sources.

Subject to the foregoing, in our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
May 20, 1977.

Harbinson, Glover & Co.
Chartered Accountants.

December 31, 1976 *(with comparative figures for the previous year)*

STATEMENT OF EARNINGS
FOR THE YEAR THEN ENDED DECEMBER 31, 1976
(with comparative figures for the previous year)

	1976	1975
Foreign (Ecuador) gross operating revenues from oil production	$4,874,762	$5,065,566
Less: Direct operating expenses: Pipeline tariffs	84,045	70,898
	4,790,717	4,994,668
Less Foreign (Ecuador) taxation; including income and export taxes, port, pipeline and foreign exchange taxes	4,231,821	4,522,029
Net oil production income	558,896	472,639
Less:		
Administration and general expense	100,371	127,655
Depreciation	220	276
Deferred Ecuador expenses written off and amortization of administration expense	20,754	20,754
	121,345	148,685
Net operating income	437,551	323,954
Net investment income	35,588	8,159
Net income before extraordinary item	473,139	332,113
Extraordinary item:		
Write-off of Ecuador investments and oil properties abandoned	—	56,696
Provision for costs of litigation	39,738	—
Net income for year	$ 433,401	$ 275,417
Earnings per share	21.44 cents	13.62 cents

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1976
(with comparative figures for the previous year)

	1976	1975
Balance, beginning of year	$ 873,101	$ 597,684
Net income for year	433,401	275,417
Balance, end of year	$1,306,502	$ 873,101

STATEMENT OF EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1976

	Mining Claims	Oil and Gas Leases	General	Total
Balance, beginning of year	$54,318	$176,005	$65,628	$295,951
Additions during year	1,248	51,855	—	53,103
	55,566	227,860	65,628	349,054
Less: Amortization	—	11,379	9,375	20,754
Balance, end of year	$55,566	$216,481	$56,253	$328,300

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1976
(with comparative figures for the previous year)

	1976	1975
Working capital derived from:		
Net income	$433,401	$275,417
Non-cash items	20,974	82,930
	454,375	358,347
Working capital applied:		
Exploration and development expenses	53,203	5,680
Advances to associated companies	12,802	345
Purchase of fixed assets (Ecuador land)	—	212,773
Interests in oil and gas, permits and leases	5,730	—
	71,735	218,798
Increase in working capital	382,640	139,549
Working capital, beginning of year	467,723	328,174
Working capital, end of year	$850,363	$467,723

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1976

1. **Accounting policies:**

The company has followed the policy of deferring all exploration, development and administration expenses to the commencement of production. As the company is now receiving income from its 1% Production Payment Interest in the Texaco-Gulf Coca Contract, Ecuador exploration and other costs of $11,379 have been written off together with $9,375 of administration expenses. Interests in other petroleum and natural gas rights and mining properties are carried at cost and are not intended to reflect present or future value.

2. **Ecuador interests:**

Pursuant to Ecuador Ministerial Resolution No. 11927 dated June 3, 1974, the company's Production Payment Income derived from the Texaco-Gulf Contract of 16th July 1965 has been materially affected as follows:

a) Texaco-Gulf must complete quarterly production payments to the Banco Central del Ecuador within 8 days of the end of each quarter; delays are subject to interest penalties; and

b) quarterly production payments shall be based on the Tax Reference Price established from time to time by the Ecuador government; and

c) the volume of crude oil production on which the company's production payments shall be based is established as gross oil production from the Coca Concession Contract area, less only such produced crude oil consumed in normal operations or through evaporation and for pipeline losses.

3. **Ecuador investments:**

Pursuant to Ecuador Ministerial Resolution No. 11927, the company is required to invest 50% of its net income in Ecuador in approved national development projects. The company has invested $212,751 on the purchase of land located within the national capital of Quito, free and clear of all liens and encumbrances, to be developed as the site of a luxury hotel project. After recovery of all investments and costs out of first proceeds, the company will hold a 30% equity interest in the hotel development and operating company.

4. **Payments to Officers and Directors:**

During 1976 the company paid $27,500 to officers and directors for services rendered. No remuneration was paid to directors for their services as directors.

5. **Foreign business income taxes:**

Due to the payment of direct Ecuador income taxes under the Ecuador Income Tax Code at the rate of 86%, pursuant to Supreme Decree No. 602 dated May 29, 1973, and published in the Official Register of June 4, 1973, the company has no Canadian income tax payable for 1976. The excess of foreign business income tax paid during the year has established a foreign business income tax credit under Canada Income Tax Law which at December 31, 1976 aggregated $4,883,321.

6. **Subsequent event:**

As at December 31, 1976, the Ecuador Government assumed control of the Gulf Oil Corporation interest in Ecuador oil production and on May 31, 1977, Gulf announced that it had received an initial $82 million payment under a sale agreement which provides for additional payments of up to $35 million, following an audit now under way. Accordingly, the company is currently not receiving production income from Gulf's former interests in Ecuador and is taking legal action to establish its rights in the said considerations.